



**State of Michigan**  
John Engler, Governor

**Department of Consumer & Industry Services**  
Kathleen M. Wilbur, Director

**Public Service Commission**

6545 Mercantile Way  
P.O. Box 30221  
Lansing, MI 48909-7721  
Telephone: 517-241-6180  
Web Site: [cis.state.mi.us/mpsc](http://cis.state.mi.us/mpsc)

**Commissioners**  
Laura Chappelle  
David A. Svanda  
Robert B. Nelson

June 7, 2002

Mr. Edward M. Meyers  
Director, State Relations  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Dear Mr. Meyers:

As we discussed during our recent telephone conversation, attached is our high altitude vision of what should be done in the Midwest, regarding RTO's and their individual members, given recent developments and announced intentions and actions. We discussed our conversation with Laura, and while she did not participate in it, she shares the vision we present here. We developed this vision in consultation with our staff who have been very involved with the formation and implementation of regional transmission organizations in the Midwest. We have spent countless hours on issues related to the Midwest ISO, the Alliance RTO, and PJM/PJM West RTO and their individual members. This vision is based on our perceptions of the underlying forces which drive all of these entities and our continuing belief that states need to have a prominent role in these matters which determine our futures. We hope that these thoughts will be helpful as FERC develops its future course of action.

If you have any questions, please feel free to contact any of us at (517) 241-6185. Please share our thoughts and vision freely with the Commissioners, as you deem appropriate.

Sincerely,

Laura Chappelle, Chairman

David A. Svanda, Commissioner

Robert B. Nelson, Commissioner

Attachment

# **PROPOSED RTO VISION AND STRATEGY FOR THE MIDWEST MARKET**

## **1. Single RTO Footprint for the Midwest**

With the formation of the MISO/SPP and PJM West RTOs, the FERC has the opportunity to finalize the RTO footprint for the Midwest. A FERC policy restricting the formation of any additional RTOs in the Midwest, along with the strong encouragement of further consolidation will answer the scope and configuration question once and for all. MISO and PJM West are now distinct organizations that have the organizational infrastructure necessary to actively negotiate and resolve inter-RTO issues in order to create the seamlessness that we have strived for. We are well past the point where individual transmission owners should dictate inter-RTO policies.

These two organizations are currently engaged in constructive discussions to develop a single market design for the combined region served by the two entities. Progress to date has been impressive; especially noteworthy is the extensive stakeholder involvement incorporated into the process and the apparent commitment of the two organizations to succeed in uniting the region into a seamless market. This voluntary initiative is a most positive development that should be strongly supported and empowered by FERC to lead development efforts for a single market for this mega-region. Included in this empowerment recommendation should be considerable flexibility to explore optimal scope and configuration alignment of the participating transmission owning utility companies within the footprint of the combined market structure. Such flexibility is necessary to foster improved transmission planning, reliability, and loop flow management, and market management and oversight consistent with more natural trading patterns and relationships.

Virtual consolidation of the MISO and PJM West will require active participation and vigilance by the FERC to ensure consistency in approach (and application) to market design, governance, planning, and reliability concerns. Without inter-RTO consistency, the virtual consolidation approach must give way to a real consolidation of the two RTOs. If seamlessness is achieved, the two RTOs can effectively coexist, if not, consolidation is required.

## **2. Formalize Inter-RTO Relationship**

The relationship between MISO and PJM West should be formalized as soon as possible. Current negotiations between the two RTOs on all market design and tariff issues must be closely supervised by the FERC. A specific reporting schedule should be established (at least quarterly) so as to allow the FERC to ascertain progress and the need to intervene. We can't afford to delay any longer.

Furthermore, as stated above, the MISO-PJM market design initiative should be granted significant flexibility to explore and recommend alternative utility and transmission owner alignment within the comprehensive umbrella structure to better address natural trading patterns, transmission planning, and reliability within the consolidated footprint of the mega-region to enhance market performance. Finally, the formalizing of the PJM/MISO systems should include elimination of all through and out rates between the two entities.

## **3. RTO Governance Should be Consistent and Formalized**

MISO and PJM West governance should be consistent. Stakeholder participation, board independence, reporting, etc. for both of the RTOs should reflect the best practices of the MISO and PJM West institutions. There is absolutely no reason why a stakeholder trying to participate in PJM would need a different "roadmap"

in order to function within the MISO. Game playing by individual members of either RTO should be neutralized by removing any advantages or differences associated with membership in either of the organizations. Consistent governance is as important as consistent market design. FERC should require that any inconsistencies in governance between the RTOs be resolved within the next six months.

#### **4. States Role in Governance Should be Formalized**

State regulatory commissions have a unique role in RTO development and governance. This role is, by nature of the statutory obligation of the commissions, superior to other stakeholders. Participation by the state commissions as partners with the RTO board and the FERC presents a unique opportunity to all parties. Although PJM has informally established such a role for state regulators, this role should be acknowledged and formalized by the FERC, for both RTOs.

#### **5. Fast Track for Implementation**

Delay is unacceptable. FERC has the authority to move forward in the Midwest. PJM wholesale market principles are working and should form the basis for market design within the MISO/PJM footprint. Perfection is not guaranteed by endless debate on the details. FERC must press forward so that the entire region can enjoy the benefits of a wholesale market.